

ORIGINAL

RECEIVED

JAN 27 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

Implementation of Sections of the)
Cable Television Consumer Protection)
and Competition Act)
Rate Regulation)

MM Docket No. 92-266

COMMENTS OF ALASKA CABLEVISION, INC.

Alaska Cablevision, Inc. ("ACI") comments upon the captioned Notice of Proposed Rulemaking ("NPRM") concerning cable rate regulation. As these comments will demonstrate, cable systems operating in rural markets in Alaska face a unique set of operating conditions and staggering high costs. The NPRM fails to fashion a regulatory approach that adequately addresses, or even recognizes, the scope of the "Alaska problem". It is imperative that the Commission establish rate benchmarks specifically based on Alaska's rural markets, and not impose on the small systems the tremendous burden and expense of individual cost of service proceedings that will inevitably be triggered if "lower 48" state cost data is relied upon. That this problem is acute, is underscored by the fact that the Commission did not include a single Alaskan cable system in its rate survey.

I. Introduction

It appears that the Commission is heading in the

No. of Copies rec'd
List A B C D E

044

direction of a benchmark approach as the initial test of reasonableness, with a secondary cost-based analysis (traditional public utility type) to be applied in individual proceedings where the benchmark is exceeded and the cable television operator asserts that it is subject to non-standard circumstances that justify rates exceeding the benchmark. It is unclear whether a single nationwide benchmark or matrix is contemplated or whether regional differences are to be recognized by the adoption of different benchmarks.

ACI feels that it would be unduly burdensome and unfair to apply a single benchmark that, because it was fashioned from statistics applicable to a different area with radically different cost factors and operating conditions, will have the result of presuming that the rates of all of the systems **in an entire State** are unreasonable. In rural Alaska, where systems are small, this will result in disproportionately high rate administration costs being passed on to subscribers, relative to larger cable systems with larger rate bases.

Section 623(b)(2) of the 1992 Cable Act direct the Commission to adopt rate regulations for basic cable service. Section 623(a) prohibits franchising authorities from regulating rates except as provided for in the Act. To the extent cost based or utility type ratemaking is employed for basic service, Commission rate regulations must be specific

and eliminate franchise authority discretion. The application of varying approaches from one community to another will result in tremendous disruption and confusion that can be avoided by establishing specific, mandatory rate rules.

As noted earlier, ACI's systems are rural and small. The 1992 Cable Act directs the Commission to reduce burdens on systems with 1,000 or fewer subscribers. Small systems should be exempt from the rate related filings and reporting that larger systems must make. In addition, it is critical that any rate benchmarks applicable to small systems be flexible enough to accommodate the relatively large cost deviations experienced in different systems caused by, in the case of Alaska, many of the operational and cost factors discussed below. If the Commission decides to exclude MSO's from any small system exception, the cut-off should be set at 100,000 subscribers. Because of the tremendous consolidation in the cable industry over the years, MSO's with fewer than this number of subscribers simply do not have available the leverage to achieve the kind of economies that the Commission has identified in its NPRM.

II. Examples of Extra Ordinary Operating Costs in Rural Alaska Systems

Alaska Cablevision owns and operates cable television systems in nine rural locations. Combined, these 9 markets provide service to 8,700 customers over 250 miles of plant

with over 31 full time equivalent employees. Each system has its own headend and provides local customer service.

The communities served are:

- | | | |
|------------|------------|--------------|
| - Kodiak | - Valdez | - Petersburg |
| - Nome | - Cordova | - Homer |
| - Kotzebue | - Wrangell | - Seward |

These markets are all small, coastal and remote. They endure incredibly brutal winter weather conditions and most do not have a road to the outside.

The following factors are very significant in describing extraordinary costs:

- * Small markets with equal or greater fixed costs of operation as that of much larger cable television systems.
- * Bitter, cold arctic weather combined with ferocious windstorms and limited winter daylight working hours.
- * Extremely remote locations with limited and very expensive transportation and shipping alternatives.
- * Incredibly high cost-of-living differential from Anchorage as well as the lower 48.

A. Transportation and Shipping

Rural Alaska communities do not have access to road and highway systems. As a result most materials are barged in during a very short summer season, or delivered by air at high cost. In Nome and Kotzebue, summer barge traffic is dependent upon the flow of ice in and out of the Bering Sea, and, all cargo for Kotzebue must be off loaded and lighteraged to shore.

10 meter earth stations were acquired for Nome and Kotzebue Cablevision. In addition to the high purchase price (discussed later), getting the earth stations on site proved to be a formidable challenge. The earth stations were located in Fairbanks and it was proposed that we float them down the Yukon River to the Bering Sea where they could be stored for the first barge of the following summer! The alternative solution was to rent a Hercules aircraft to transport the earth stations. This was accomplished at a cost of \$10,000.

Specific Examples

The cost of freight is almost as much as the expense of repairing equipment (ie set top converters, electronics, etc).

Typical converter cost(new)	\$38.00	
Average repair Cost		10.00
Average freight expense		6.00

Often fragile electronic equipment sent out for repair is returned damaged as a result of the long and extended shipping process.

Videocypher (de-scrambler)		
Average repair cost		\$100.00
Average freight expense		50.00

Cordova Cablevision purchases a service vehicle from an affiliated cable television system in the lower 48.

Transfer value	\$1,500.00
Shipping expense	1,600.00

Total Expense	\$3,100.00
Subscribers this System	600
Cost per Subscriber	\$ 5.17

B. People in the Workplace

Small rural Alaska markets do not have a large labor force available. Considerable expense is incurred to recruit new employees and to train new employees. Companywide, compensation is greater than 40 percent more in Alaska than the lower 48 averages.

Petersburg Cablevision's (748 subscribers) payroll costs average \$12.97 per subscriber per month as compared to Friday Harbor, WA (754 subscribers) where payroll costs average \$9.20 per subscriber per month.

Specific Examples

Due to limited local resources and available manpower, technical expertise is often sent in from other systems to handle major system malfunctions ("The \$2,000 Service Call"). Such was the case for Wrangell Cablevision recently when a senior technician from Kodiak was required for an 8 hour job, and due to reduced winter air schedules and bad weather; was unable to leave Wrangell for three days.

Round trip air fare (Kodiak to Wrangell)	\$800.00
1 night lodging (Juneau)	100.00
1.5 days wages (travel time)	234.00
5 days per diem	125.00
2 nights lodging (Wrangell)	200.00
3 days wages (Wrangell)	468.00
Total Expense	\$1,927.00
Subscribers this System	650
Cost per Subscriber	\$ 2.96

Occasionally, prerequisite skills call for the recruitment of personnel from outside Alaska at very high relocation cost. After exhausting all in-state recruiting efforts, Kodiak Cablevision hired a senior level technician from California.

Interview air fare (round trip)	\$1,000.00
2 days lodging	200.00
2 days per diem	50.00
Relocation of personal belongings	5,000.00
Relocation air fare	750.00
Total Expense	\$7,000.00
Subscribers this System	2,600
Cost per Subscriber	\$ 2.69

Newly hired technicians are routinely inexperienced and sent out to other systems to get hands-on training. Meanwhile technicians from other systems must be brought in to cover during their absence.

Round trip air fare (Valdez to Kodiak)	\$600.00
5 nights lodging	500.00
5 days per diem	125.00
Round trip air fare (Kodiak to Valdez)	\$600.00
5 nights lodging	500.00
5 days per diem	125.00

Total Expense	\$ 2,450.00
Subscribers this System	950
Cost per Subscriber	\$ 2.58

C. Accelerated Environmental Fatigue on Plant

These are all coastal communities where bitter cold, arctic weather plays a significant factor in reducing the expected life of outside plant and facilities.

Specific Examples

The construction season is much shorter and the ground remains frozen longer. As a result, "joint trenching" costs to bury cable often exceed \$2.25 per foot and backhoe rentals exceed \$80.00 per hour.

Utility pole attachment fees for Homer Cablevision are \$10.60 per pole annually. Attachment fees average only \$3.60 in Bonners Ferry, ID, a market of similar size. Again, these utility poles themselves, are subject to very high acquisition and shipping costs.

At Nome Cablevision, foundations for large satellite receiving antennas (dishes) must be mounted on pilings set over 20 feet into the ground to withstand the effects of permafrost as well as to combat the ongoing shifting of the ground.

Cost of pipe & drilling	\$5,000.00
Subscribers this System	750
Cost per Subscriber	\$ 6.67

Other Examples

In Valdez, all utilities are required to be located underground. Annual snowfall averages over 300 cumulative inches. Utility service enclosures (pedestals) are mounted on six foot 4x4s with 8 foot locater rods attached. During the winter months, it's not uncommon to experience an "all day" service call, when drifting snow makes it almost impossible to find the pedestal. Once the pedestal is located, it takes hours to dig it out by hand.

Wind driven, salt spray creates excessive corrosion thereby reducing the useful life of all outside connectors and attachments.

Extreme winds, freezing temperatures and limited winter daylight hours create hazardous working conditions and additional manhours to complete routine assignments.

Cold temperatures cause "suck-outs"; a result of the cable center conductor shrinking and pulling away from the connecting fitting resulting is a degraded picture and/or outage.

Due to the rocky terrain, buried cable is put in a more sturdy conduit to protect it against the elements and against damage during backfill because bedding material is cost prohibitive.

D. Remote Geographic Locations

Again these communities are both isolated and sparsely populated. The market size creates many financial burdens when exorbitant expenses are spread over such a small base.

Kotzebue Cablevision's (500 subscribers) overall operating expenses average more than \$40.93 per subscriber per month as compared to Bonners Ferry, ID (532 subscribers) at \$16.23 per subscriber per month.

Specific Examples

Because Alaska is located so far north and west, satellite dishes need to be much larger (and more expensive to purchase & ship), and the associated receiving electronics required cost more as well.

10 Meter earth stations (Kodiak, Valdez, Nome, Kotzebue)	\$50,000.00
7 Meter earth stations (Seward)	34,000.00
5 Meter earth stations (all nine locations)	5,700.00

The 7 meter antenna shipped to Seward:

7 meter antenna (purchase price)	\$34,000.00
Freight	5,000.00
Installation	7,500.00
Total Cost	46,500.00
Subscribers this System	950
Cost per Subscriber	\$ 48.95

Concrete (and associated framing) have exceeded \$4,000.00 to pour a ten foot square, two foot thick foundation pad. To pour a pad in Coeur d'Alene, ID would cost approximately \$1,000.00

A mobile trailer was purchased for Kotzebue Cablevision to serve as a combination head end and office. The purchase price of the trailer was \$15,000; it was shipped via barge at a cost of \$15,000; and installation and utility connections cost \$15,000.

Total Cost	45,000.00
Subscribers this System	500
Cost per Subscriber	\$ 90.00

Office supplies and equipment bought locally average two or three times the prices of supply catalogs. As an example, a typical four drawer, lateral file cabinet bought locally exceeded \$800.00. The same file cabinet can be purchased in Seattle for \$400.00.

III. Conclusions

As a cable television operator in rural Alaska, ACI is particularly concerned with this rulemaking procedure on rate regulation. Again, it appears that the Commission would like to consider a rate making process which would involve permitted ranges or other formulas that are based largely on "lower 48 averages". The Commission has distributed 850 rate surveys to cable television systems throughout the country, however not one cable system in the state of Alaska received a survey.

The adoption of such "lower 48 standards" could create an extreme hardship on cable television systems in Alaska. We are all aware of the various index numbers that purport to quantify the cost of living differential between Alaska and

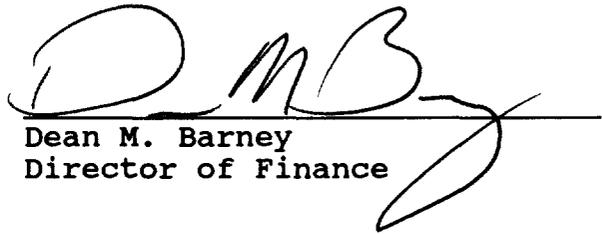
the lower 48, and, to some extent, between Anchorage (Alaska's largest city with approximately half of the state's population) and the more remote areas. Unfortunately, even the application of such indexes, while helpful, would not be sufficient to adequately adjust for the unique characteristics of providing cable television service in the rural and remote communities of Alaska.

Historically, the costs associated with operating a cable television system in Alaska are twice that of cable television systems located in the continental United States. The reasons are many. The most obvious include; i) smaller labor forces requiring above average salary and wages; ii) an extremely limited transportation and shipping system; iii) small, remote markets which do not achieve any scale economics; iv) incredibly high construction costs during a very short construction season; and v) accelerated environmental fatigue on plant and facilities due to extreme weather conditions.

ACI operating expenses, before depreciation and debt service, have averaged over \$30.00 per subscriber per month in 1992. Similar operating expenses for systems down south have averaged \$15.60 per subscriber per month. ACI operating expenses on a per subscriber basis are 94% greater! This disparity holds true in salaries, materials, rents, utilities and every significant operating expense category.

ACI has been conducting business in Alaska for well over a dozen years. As we enter this new era of rate regulation, special consideration of the economics and the dynamics of these markets must be given. Special provisions must be established to recognize the uniqueness and the established histories of both service rates and operating expense in Alaska.

Respectfully Submitted,



Dean M. Barney
Director of Finance